

For Immediate Release:
February 7, 2013

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San Jose Mayor Reed: Fiscal Picture Improving, City Must “Stay the Course” to Restore Services

State of the City: Restoring Police Department is Top Priority for Fiscal Reform Savings, San Jose Can Add 200 Police Officers in Coming Years

San José, Calif. – With savings from pension reforms and potential new revenues in the next two years, San Jose will be able to increase its police force by 200 additional officers and begin to restore services cut in past years, Mayor Chuck Reed said in his seventh State of the City address.

San Jose and Silicon Valley are showing solid signs of recovery, and Mayor Reed expressed cautious optimism about the City’s fiscal health in the coming year. However, he cautioned that a full recovery will require completion of the City’s fiscal reforms.

“Our economic outlook is strong and opportunities abound,” he said. “Now it’s up to us to stay the course to solve our fiscal problems, to remain mindful of what got us into the mess in the first place, and to keep our eyes on the long-term goal – a future in which we are fiscally strong and can afford to open all of our libraries and community centers full time, repair our streets, end the fire company brownouts, and restore capacity in our police department.”

San Jose’s current year revenues are tracking slightly above projections. Fiscal Year 2012-2013 began with a small surplus – the first in more than a decade.

“The elements of the Fiscal Reform Plan that we have already implemented are saving us over \$100 million dollars a year,” Mayor Reed said. “As a result, this year we were able to balance the budget with no layoffs and begin to restore services, like opening four branch libraries that have been vacant and locked.”

Following the dot-com bust, San Jose experienced ten straight years of budget shortfalls. The budget was balanced each year by cutting services and eliminating jobs from the City payroll – 2,000 over the decade, most of those in the three years from 2009 to 2012. Even when the economy and city revenues rebounded from the dot-com bust, it wasn’t enough to restore services; the cost of doing business, driven by costs for pensions and retiree healthcare, had increased even more. Over the decade, retirement costs increased from \$73 million to \$245

million a year, and the City's two retirement plans still have \$3 billion in unfunded liabilities for pension and healthcare commitments made to retirees and current employees.

In May 2011, the City Council adopted a Fiscal Reform Plan to achieve two equally important objectives:

1. Make sure city employees and retirees get paid the retirement benefits they have earned and accrued, and
2. Provide essential services to San Jose residents.

In 2011-2012, all employees including the City Council and senior management took at least a 10 percent cut in total compensation. On June 5, 2012, the voters of San Jose approved the Measure B pension reforms with nearly 70 percent of the vote.

During this time, City departments did more with less, and in his speech, the Mayor lauded a number of innovations they implemented, including San Jose Fire Department's use of two-person squad cars for some medical emergencies instead of four-person fire trucks and the new model for graffiti clean-up and launch of the SanJoseClean app that allows residents to report graffiti from their smart phones.

Restoring Capacity in the Police Department

Mayor Reed noted that cumulative budget cuts in previous years have left the City understaffed and "nowhere is this more apparent than in our police department."

"We need to hire more officers to patrol our neighborhoods and solve and prevent crimes – and that's where we will put savings generated by the Measure B pension reforms," Mayor Reed said. "To be more precise, with the savings from pension reform, we can expand the force by 200 more police officers."

More immediately, he proposed that the City retain officers and improve capacity by:

- Offering retention bonuses and targeted pay increases within its financial resources;
- Returning officers to the street from roles, like performing background checks, that could be done by civilians;
- Hiring non-sworn Community Service Officers to follow up on burglaries and other such incidents; and
- Hiring and recruiting aggressively. The department currently has more than a dozen direct hires in the field training program and more than 40 recruits in the academy.

In the decade before the Fiscal Reform Plan, the Police Department budget didn't shrink – the City Council actually increased it by nearly \$100 million. But as retirement costs rose, so did the cost per officer, and the department's staffing shrink even with the budget increase. Mayor Reed said that his priority over the next two years, as the Measure B pension reforms are fully implemented, will be to improve police department capacity.

Last year, cities across California have seen a rise in property crimes and homicides, as has San Jose. “The only crime rate that matters to me is what’s happening here in San Jose,” Mayor Reed said. “We must not and we will not accept higher crime rates as the new normal. We will not write off any neighborhood. What we will do is restore capacity in our police department so we can better respond to crime.”

Investing in the Future

Mayor Reed acknowledged that the last decade has been difficult for city employees. “While our Fiscal Reform Plan has averted disaster and put us on the path to recovery, I want to acknowledge that it has had real and painful consequences, especially for our hardworking city employees,” he said. “Many of these painful decisions were made in agreements with our employee unions, with the knowledge that if everyone sacrificed, jobs and services would be saved. ... While pay cuts and pension reforms were necessary to save hundreds of jobs and preserve services, they have resulted in resignations and a loss of good people in some areas.”

The Mayor suggested the City begin to reward innovation and superior performance, starting with critical and hard-to-fill positions. Additionally, implementation of the “employee choice” provisions of Measure B will give city staff an opportunity to opt into a lower cost pension plan for their future years of service – and take home more pay. This option is currently pending IRS approval.

Mayor Reed touched on recent talk of restoring the 10 percent pay cuts taken in prior years, particularly in the police department. “Some have suggested that we restore the full 10 percent cut in compensation to encourage experienced officers to stay. I wish we could do that today. But it would cost about \$20 million a year, meaning we would have to shrink the force by more than 100 officers or cut other services dramatically,” Mayor Reed said. “No one thinks it’s a good idea to shrink our already-too-small force.”

Another option for restoring services – one envisioned in the City’s Fiscal Reform Plan – is raising new revenues. According to a recent city-commissioned survey, San Jose voters are likely to support an increase in the city’s sales tax rate of one-quarter to one-half a percent. Such an increase could raise \$34 million to \$68 million in annual revenue. “I challenge all of you who want a tax increase to put together a broad coalition of support with the capacity and commitment to raise a million dollars,” Mayor Reed said. “That’s what it will take to win.”

Leading the Nation in Innovation

San Jose is also poised to gain new revenues from economic development – and according to two recent studies, the San Jose metro area is leading the nation in creating and sustaining economic growth and in clean tech innovation. “Private sector projects already under construction will generate nearly \$10 million in new tax revenues once they are completed,” Mayor Reed said. “And we have more than a billion dollars of investments, moving through our permitting process which will create thousands of jobs, and generate another \$10 million in annual tax revenues.”

Mayor Reed thanked companies like Samsung Semiconductor, which is building its world R&D headquarters in North San Jose, saying, “We appreciate the confidence you have in San Jose, and as your Mayor, I am committed to helping your companies stay here and grow here by working at the speed of business.” He recognized Virgin America which on Monday announced that it would be bringing new air service in May to Mineta San Jose International Airport.

“We’ve also worked hard to capture economic growth – and we’re seeing great results,” Mayor Reed said. “Silicon Valley companies are once again leading the state and the nation out of recession.”

The Mayor closed by thanking the people of San Jose for their commitment to addressing the City’s challenges. “We have made the hard decisions and taken the difficult steps to solve problems so they don’t burden future generations. But we could not have done so without the strong and continuous support of the people of San Jose,” Mayor Reed said. “With your help we put San Jose back on the path to be a great city. Together we will keep moving forward, toward a brighter future.”

About the State of the City Event

In addition to the State of the City Address, the State of the City event recognized Community Honorees from each City Council District and honored city employees with the Pride of San Jose awards.

Community Honorees: Steve Landau (District 1); Boys and Girls Club of Silicon Valley (District 2); Garden to Table (District 3); Berryessa Business Association (District 4); Battaglia Ranch Farms (District 5); Rotary Club of San Jose (District 6); Happy Hollow Foundation (District 7); Food Allergy Research and Education, Bay Area Chapter (District 8); Carlo Pedron and the San Jose Elks Lodge #522 Highway Clean-Up Team (District 9); Martin-Fontana Parks Association (District 10) .

Pride of San Jose Awardees: Citywide Web Conversion Project Team; Air Service Dream Team; Successor Agency to the Redevelopment Agency Transition Team; SJPD Automated Field Reporting Records Management Systems Team; Alternate Service Delivery Team; Citywide Special Events Team; Homeless Encampment Response Team.

Brian Adams, Vice President of Advancement for Bellarmine College Preparatory, and Keri Procunier McLain, Chief Executive Officer YWCA Silicon Valley, served as emcees. Mayor Reed was introduced by Carl Guardino, President and CEO of the Silicon Valley Leadership Group, a public policy trade association that represents more than 375 of Silicon Valley’s most respected companies.

The State of the City address will be re-broadcast multiple times throughout the weekend on *CivicCenter Television* (Comcast Cable Channel 26). The event will also be available online for on-demand viewing starting Friday, February 8. The direct link for online viewing is: http://sanjose.granicus.com/MediaPlayer.php?publish_id=856